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Financial Digest

Analysis of Business Trends Plus Selected Financial Indicators

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Mexico Bounces Back

In early 1980, Mexico's president, Carlos Salinas de Gortari, traveled to several nations in Western Europe in an effort to promote investment in his country. But with the collapse of communism in Eastern Europe, most Western Europeans saw a wealth of investment opportunities closer to home, and President Salinas was given a cool reception. Less than two years later, however, investment in Eastern Europe, hampered by such obstacles as an inadequate infrastructure, the absence of private property laws and an obsolete capital stock, is barely trickling in.

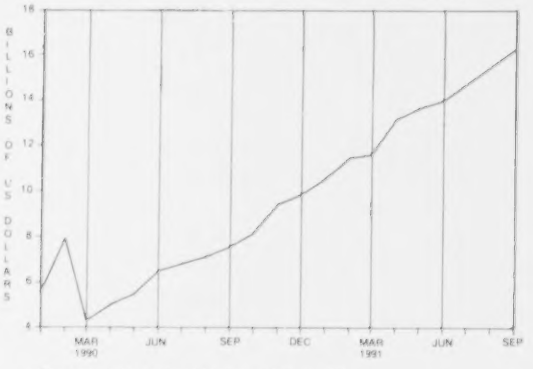
Across the Atlantic, however, lured by President Salinas' economic modernization and liberalization drive and the impressive results of his stabilization program, foreign investment is pouring into Mexico, the stock market is soaring, and flight capital is coming home. What's more, Mexico has regained access to the voluntary lending market, placing more than $1 billion in bonds on international capital markets in the first nine months of this year.

Indeed, the remarkable performance of the Mexican economy and the consequent inflow of private investment prompted Jacques Attali, President of the European Bank for Reconstruction and Development (RBRD) that was recently established to help finance the economic restructuring of Eastern Europe, to point out last month that Mexico is a "striking example for Eastern Europe of how market-oriented structural reforms can attract private capital." On the eve of his recent trip to Moscow, U.S. Secretary of State James Baker stated to the press that the Salinas Administration had introduced in Mexico "the kind of reforms that we hope we see in the Soviet Union and elsewhere." And a few weeks ago, Rudi Dornbush, Professor of Economics at the Massachusetts Institute of Technology (MIT) wrote an article on Mexico for a London newspaper in which he stated that "no other troubled country has done more things right in the past decade and no country shows as spectacular a payoff."

Foreign Investment Soars

Lured by the government's stabilization program and the transformation of the economy by privatization, deregulation and trade liberalization, foreign investment is pouring into Mexico. During the first half of this year, it totaled $3.6 billion compared with $4.6 billion in all of 1990. With all signs pointing to even bigger increases in the coming months, President Salinas' prediction that investment inflows will reach $10 billion this year is not impossible. What's more, due to this inflow of foreign funds, as well as to the return of Mexico's own flight capital, foreign reserves reached $16.3 billion at the end of September, the highest level in the country's history (see chart).

MEXICO'S TOTAL FOREIGN RESERVES (MINUS GOLD)



Sources: International Monetary Fund; MH

To be sure, a major factor that has attracted foreign investment this year is the soon-to-be negotiated free trade agreement between Mexico, the United States and Canada. However, equally important has been the success of President Salinas' policies at home, which has bolstered investor confidence in the Mexican economy. He has slashed public spending, dismantled trade barriers, put hundreds of state-owned enterprises up for sale and liberalized foreign investment regulations. He has also vigorously enforced a strict anti-inflation pact between the government, businesses and labor unions, which has limited wage and price increases and controlled the exchange rate between the peso and the dollar.

Making the control of inflation his chief economic priority, President Salinas slashed the rate of price increases from almost 160 percent in 1987 to about 20 percent in the twelve months to September, and there is a good chance he will achieve his 16 percent target for this year as a whole. But even if the inflation rate comes in at 17-18 percent as most private

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economists believe, it will still be a major improvement from the 30 percent figure posted last year.

Economic Policies Successful

While this year's inflation rate will be the slowest in over a decade, the rate of economic expansion will be the quickest. Paced by a surge in investment, real GDP growth is expected to reach almost five percent this year, up from 3.9 percent in 1990. Impressive also has been the commitment of the government to put its own finances in order. The combination of tax reform, spending cuts and the government's privatization program has reduced the public sector's deficit from a whopping 16 percent of GDP in 1987 to less than four percent last year. This year, in fact, the government recorded a fiscal *surplus* of $3.2 billion in the January-June period.

One unfortunate by-product of the government's economic program, however, has been a sharp deterioration in Mexico's trade and current account balances. The dismantling of import barriers and Mexico's brisk economic growth caused imports to soar by nearly 40 percent in the first six months of this year from a year ago, widening the half-year trade deficit to $4.1 billion from $1.1 billion in the first half of 1990. The trade deficit for the entire year is likely to

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/16/91)	176,172	- 1,744	- 32,083
New York City (10/23/91)	28,916	- 200	- 6,513
Commercial Paper (10/23/91)	527,773	- 1,238	- 30,878

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/16/91)	299,611	+ 1,303	- 18,041
New York City (10/23/91)	52,987	- 1,219	- 4,303

Total Loans and Leases Gross Adjust

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/16/91)	1,013,604	+ 1,695	- 5,103
New York City (10/23/91)	165,129	- 3,834	- 12,384

Financial Markets

	Friday 11/1/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.87%	- .22	- 2.41
180-Day Bills†	4.96	- .27	- 2.42
Longest Bills†	5.01	- .29	- 2.33
Recent Issues:			
6s 10/31/93	5.64	- .28	
6⅞s 10/31/96	6.69	- .27	
7⅞s 8/1/01	7.44	- .22	
8⅛s 8/15/21	7.89	- .14	
Municipals:			
Bond Buyer—20 Bond Index* (10/31/91)	6.69%	- .04	- .60
Blue List Total ($ Million)	$1,427	+ $ 49	+$ 537
30-Day Visible Supply ($ Million)	$4,844	+ $1,818	+$3,779
Total	$6,271	+ $1,867	+$4,316
Corporates:			
Moody's Aa Composite (10/31/91)	8.78%	- .11	- .91
30-Day Visible Supply ($ Million)	$ 550	+ $ 400	- $ 100
Stocks:			
Dow-Jones Averages:			
Industrials	3,056.35	+ 51.43	+565.51
Transportation	1,281.58	+ 36.62	+439.12
Utilities	215.46	+ 1.95	- .46
65 Stocks	1,106.76	+ 21.06	+227.33
N.Y.S.E. Composite Index	216.01	+ 4.19	+ 45.94
N.Y.S.E. Avg. Daily Vol. for Week (000's)	186,721	+ 10,823	+32,255

*34% Taxable equivalent 10.14%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/1/91	Week Ago
Overnight	4.94%	5.19%
1 month	4.94	5.25
3 month	5.00	5.38
6 month	5.06	5.38
1 year	5.13	5.56

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/1/91)	Currency Per U.S. $	Week Ago
Belgium	34.24	35.01
Canada	1.1215	1.1270
France	5.6775	5.8020
Germany	1.6608	1.6993
Italy	1247.00	1270.50
Japan	130.20	131.35
Mexico	3071.80	3069.40
Netherlands	1.8725	1.9155
South Korea	737.96	736.19
Switzerland	1.4615	1.4885
Taiwan	25.99	26.08
U.K.*	1.7490	1.7110

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/1/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.8%	-11.6%

exceed $9 billion—triple the $3 billion shortfall posted last year. As a result, the current account deficit will more than double to almost $12 billion, from $5.3 billion in 1990.

Despite the dramatic widening of the external deficits, a maxi-devaluation of the peso, or even a faster mini-devaluation pace from the current 40 centavos per day is highly unlikely. For one thing, besides bolstering investor confidence, a stable exchange rate has been an important inflation-fighting tool. For another, although the peso has become somewhat overvalued—under the present devaluation schedule, the peso cost of buying dollars increases by less than five percent per year, not enough to compensate for the Mexican-U.S. inflation rate differential of around 15 percentage points—exports are holding up extremely well. Despite the recession in the United States, the market for over 80 percent of Mexico's foreign sales, manufactured exports increased by a hefty 19 percent in the first half of 1991 from a year ago. And finally, with Mexico's foreign reserves likely to exceed $17 billion by yearend, the current account deficit seems quite manageable. All in all, Mexico's economic performance over the past few years has been remarkable, especially for a country whose ability to implement change was doubted by so many only a couple of years ago. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/30/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	262.571	+ .080	+21.348
Loans to Depository Inst.	.203	- .044	- .227
Float	1.352	+ .825	+ .683
Total Reserve Bank Credit	296.329	+ .953	+11.952
Treasury Deposits with Federal Reserve Banks	5.130	- 1.363	- 1.144
Currency in Circulation	295.474	- .880	+20.941
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	250.267	- .761	+ 9.274
Member Bank Reserves:	10/30/91		
Total Reserves Held	51.361	- .570	- 6.784
Excess (Deficiency)	1.174	+ .149	+ .524
Net Free Reserves	.963	+ .221	+ .684

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (10/21/91)	882.6	+ 8.2	+ 6.7
M2 (10/21/91)	3,406.1	+ 0.7	+ 2.2
M3 (10/21/91)	4,148.1	- 1.0	+ 1.2
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/1/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.85%	4.95%	5.01%
* Federal Agencies	4.95	5.00	5.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.06	6.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.10	5.20	5.20

‡ Finance Company Paper–Prime

5- 14 days	5.00%
15- 29 days	4.95
30- 59 days	4.73
60- 89 days	4.86
90-179 days	4.97
180-239 days	5.00
240-270 days	5.00

‡* Bankers' Acceptances

Dec.	5.00%
Jan.	5.10
Feb.	5.05
Mar.	5.00
Apr.	5.00
May	5.00

‡ Industrial Paper–Prime

30- 89 days	4.93%
90-120 days	4.90

†Federal Funds Effective Rate 5.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'91 n	$ 5,671	$ 5,612	$ 5,515
Gross National Product (1982 Dollars)*	3rd Q'91 n	$ 4,143	$ 4,119	$ 4,170
Percent Change, Annual Rate	3rd Q'91 n	+ 2.4	- 0.5	+ 1.4
Change in Consumer Prices*	Sep '91	4.8%	2.4%	9.6%
Change in MH Cost of Living Index*	Sep '91	3.6%	4.8%	4.8%
Change in Producer Prices*	Sep '91	1.2%	2.4%	15.6%
Civilian Employment (Thousands of Persons) †	Oct '91 n	116,967	117,165	117,733
Unemployment as % of Civilian Labor Force †	Oct '91 n	6.8%	6.7%	5.7%
Personal Income*	Sep '91 n	$ 4,847	$ 4,824	$ 4,698
Leading Indicators Composite Index (1967=100) †	Sep '91 n	145.4	145.5r	143.2
Industrial Production Index (1977=100) †	Sep '91	108.1	108.0	110.6
Net Change in Consumer Installment Credit †	Aug '91	- $ 1.29	- $ 0.63	+$ 1.09
U.S. Merchandise Trade Balance †	Aug '91	- $ 6.76	- $ 5.95	- $ 9.35
Plant and Equipment Expenditures*	4th Q'91	$ 540.9(a)	$ 539.5(a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Sep '91	1,033	1,056	1,106
New Construction Expenditures*	Sep '91 n	$ 406.5	$ 402.1r	$ 437.2
Total Business Inventories †	Aug '91	$ 806.2	$ 806.8	$ 822.7
Total Business Sales †	Aug '91	$ 540.9	$ 541.0	$ 554.2

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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